Strategic Development:

A New Chapter in the Development Dialogue?

by

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From at least the time Adam Smith wrote about it in " The Wealth of Nations," the "different progress of opulence in different countries" has been determined by, first, the ability of people to provide "plentiful revenue…for themselves," and secondly, upon the provision of "a revenue sufficient for the public services." 1/ Smith's description of what we think of today and measure in terms of economic development raises all manner of strategic linkages and gaps. One especially critical gap concerns the issue of *value*. Value is a prime feedstock of wealth in market economies. Many developing countries find their industries caught in low-cost, low-value traps that substantially explain their lower-than-desired levels of economic performance. Value is *created* by strategy in market economies. A country's economic performance may therefore be understood partially as a function of its ability to conceive and implement strategy. Rich countries are long on value-creating strategies and poor countries are short on them.

The thesis of this essay is that economic development needs to tap the roots of wealth by embracing and adding value to commercial strategy as the means to build social wealth and improve living standards in developing countries. The definition of this process, strategic development, is in its application.

Globalization has provided the entrée for strategic development by exposing all economies to absolute standards of productivity. A concern for sustainability highlighted the time dimension and set the alarm clock of development. A focus on strategic development adds a supporting dimension to sustainability concerns; it reinforces the importance of *place*, that is, of *place* relative to global productivity standards, and the need to create *place value*, as it were, in developing countries.

Strategic development offers a possible corrective to the policy-driven approach many developing countries have followed since independence. This approach often has crowded-out a role for strategy and it has cast government in the role of master strategist for the private sector. A difficult role for many governments even on the national stage, the role of strategy assumes daunting new challenges in the era of globalization. Strategic development is presented as a tool to enable developing countries to face these challenges with confidence.

It's Not *Just* about Economics, Economic Restructuring, and/or Policy Reform

Current paradigms of national competitiveness hearken directly back to Smith. Michael Porter's paradigm of national competitiveness, for example, depicts the performance of an economy as a function of, first, the ability of firms to implement sophisticated operations and *strategies*, and, secondly, upon the support of an enabling *policy* environment (emphasis added*). 2/* Porter's paradigm updates Smith's by adding the importance of a stable legal, political, and macroeconomic setting for growth. This paradigm, supported by associated methodological tools, provides the foundation of strategic development, which is an application of competitiveness theory.

However, to the benefit of its application, strategic development emphasizes not economics, economic restructuring, policy reform or other areas of debate that sometimes confound and delay development. Achieving and sustaining higher levels of productivity over the longer-term depends upon the extent to which -and how well - the route to 'opulence' is marked by *strategy*, and the extent to which *strategy* is supported and enabled by *policy*, Indeed, if strategic development had a motto, it would be "Strategy before Policy." In many developing countries, the policy-driven approach to development, unguided by *strategy*, has resulted in weak and ineffective development institutions that have been barriers to innovation and set back the clock on development. Strategic development offers a non-institutional, community-based approach to development. Strategy is a tool of empowerment, because it creates wealth. The wealth-creating power of strategy is enhanced by the critical mass that a strategically focused, extended community of stakeholders can bring to bear on the exercise of strategic development.

Benchmarking the Fundamentals of Wealth Creation

The mission of strategic development is to help close the gap between *strategy* and *policy* in order to create more wealth and enable more rapid and widely spread gains in the standard of living in developing countries.

A first step in this enabling process involves benchmarking "our industry" and "global industry" in terms of *strategy* and *policy*, especially in the areas that represent the bricks and mortar of development -- technology, research and development, and infrastructure.

Human resources, too, are part of the brickwork, of course, yet primary and secondary education and other longer-term training programs are not a direct target of strategic development. The skills needed in the context of strategic development either are hired on the open market, acquired by alliance, or most likely drawn from a community's existing pool of talent. Good strategy is an attractive lure for talent (and investment). The process of strategic development helps to reveal and create opportunities for growth that require the immediate application of higher-level talent, hence basic education falls outside the direct purview of the exercise.

At its most rudimentary level of application, benchmarking simply compares the productivity performance of "our industry" and "global industry, " again in terms of *strategy* and *policy*. The comparison enables *gap analysis*, which helps to establish a basis for understanding how "global" firms or groups of them in any particular place (including cyberspace) are creating more value for their customers and themselves.

Strategy benchmarking © represents the first stage of commercial strategizing. Its purpose is to establish how global firms create higher levels of value, and to quantify those values so that they may become markers for the upgrading of "our industry." Private firms from the same industry or sector working together in clusters lead the strategizing exercise initially, and then other stakeholders from other industries, from government, from "global industry" and elsewhere are brought into the process on an as-needed basis. Later, co-leadership emerges between the private and public sectors as strategic development initiatives forge a *strategy-policy* team that operates with equal effectiveness in both sectors. An outside facilitator or catalyst is useful to this phase of the strategic development process. Various diagnostic tools of business strategy (such as 'value chain' analysis) are used to organize and analyze relevant industry information, to facilitate analysis of the competitive environment.

Policy benchmarking © provides a complementary input to *strategy benchmarking* and it begins the process of strategizing the role of the public sector in the context of strategic development initiatives. It involves an exercise of systematically reviewing the policy environment in competing producer countries to determine if there are any policy measures that may be consistently equated with higher growth rates in sectoral or industry-level productivity in that country or industry. Similarly, *policy benchmarking* tracks regulatory trends in consumer markets to establish how legislative initiatives there may open new markets or establish new thresholds of competitiveness performance. Policy benchmarking can advance the development of a menu of policy options that may yield some ideas for legislation to advance the dialogue on competitiveness and strategic development.

Building the Team for Benchmarking and Strategic Development

Benchmarking is approached both as an analytical exercise and as a tool for dialogue. It provides a source of informed input to the development dialogue. As noted, private firms working together in clusters are best poised to initiate the process. (And again, an outside facilitator or catalyst is often useful to this phase of strategic development.)

Many policy research institutes in developing countries lack exposure to microeconomic strategy, as there has been no demand for it in the policy-driven environment in which they operate, as described above. Hence, *policy benchmarking* may best be undertaken, initially at least, by outside consultants, with input from local research institutes and academia as available.

A high-level, respected public official, representing, for present purposes, *policy*, usually is needed to champion strategic development in order to establish and promote the legitimacy of the exercise. Pilot projects at the field level may need this level of support, as the requirements of the *strategy* generated by the cluster will make demands on government to provide enabling *policy* support not just at the regional level, but also at the federal level. Strategic development thus presents the need and opportunity for new types of teamwork between government and the private sector. This team can represent an important link in an administration's ability to communicate effectively with the private sector, with investors, with donors, and others.

Trade associations often represent the nucleus of clusters. Clusters tend to be more effective than associations in strategic development. Associations typically are single-industry focused, vertically organized, formal bodies focused on delivering services to their membership. Clusters are *ad hoc* bodies that tend to include both vertical and horizontal players from multiple industries. Clusters are formed to help establish strategic direction and to focus on and advance coordination between *strategy* and *policy*. Clusters are vehicles that help to develop a critical mass (in investments, scale, or lobbying efforts, for example) that is essential to achieving competitiveness.

Neither associations nor chambers of commerce typically include the more non-traditional, creative members of a given industry. This inhibits their ability to contribute to strategic development, which, as noted by implication above, does not involve itself directly with institutional reform, either at the level of private chambers of commerce or government ministries.

Clusters have the ability to entice creative people to be involved with them, because, as noted, good strategy is like a well-baited hook. The importance of creativity to the process of strategic development cannot be overstated. Strategy is itself a highly creative process, especially as it stresses the importance of differentiation, as discussed below.

Benchmarking is valuable to strategic development because it starts an objective, strategically conceived, and globally referenced dialogue on development. Strategic opportunities for cluster investment are scoped-out, as are the policy support measures that will be needed to induce and secure new investment. This gives rise to a level of confidence that, in its absence, partially explains the chronic under-investment that is a feature of most economies in developing countries. Benchmarking represents an intermediate and on-going input to the strategizing process.

Strategy and *policy benchmarking* are pursued by clusters as complementary exercises, and once the process has been initiated by private firms, the two activities and any people or other bodies associated with them operate in tandem, on an *ad hoc* basis. Clusters represent a means for changing the basis of competition because they create the conditions for more effective demand and greater bargaining power.

There is a tendency to want to institutionalize these *ad hoc* bodies, in the form of competitiveness councils. The tendency appears to be strongest among donors, where it is driven more by convenience than by commitment to the underlying exercise. This compromises and even jeopardizes the process of strategic development because it runs the risk of restoring government to the role of master strategist.

An Introductory Example of Benchmarking

An example may help to illustrate how benchmarking may be applied in the context of a strategic development exercise. Consider the case of a group of firms from one or possibly several industries which has benchmarked R&D (research and development) and established that their combined R&D expenditures are, say, two percent of gross annual turnover (at whatever relevant level, *e.g.*, national industry, regional industry, clusters, etc.) where the absolute standard for R&D among the 'global best' may be fifteen percent.

Strategy benchmarking provides clusters with a means to understand how the 'global best' generates higher value in the R&D area, and the requirements of generating that level of R&D productivity in "our industry."

The values issues implicit in identifying "the best" will always involve a substantial degree of subjectivity. This is especially the case in strategic development exercises, because the "global best" may represent not a direct target but a point of departure for the differentiation exercise that is at the heart of repositioning an economy. As discussed below, strategy is 'about' choice.

Similarly, from a public *policy* perspective, benchmarking may establish not just that the public sector's share of R&D funding is low, but also what the public sector may to do provide a more enabling and competitive environment for firms and industries. This may represent a departure from the normal approach to policy formulation in developing countries, whereby policies often are implemented absent of knowledge of the effect they may have had elsewhere.

Benchmarking Global Standards as Targets of Development

Benchmarking "global standards" and investing in upgrading to those standards as a means to exit low-cost, low-value traps may itself represent a trap for developing countries. Global standards may represent the “ceiling” for developing countries, yet at the same time they often represent the “floor” for sophisticated global players. Targeting global standards as a strategy may thus result in a strategy of never-ending catch-up.

Benchmarking the bricks and mortar of development across multiple industries reveals opportunities for shared public-private investments. Such synergy contributes a highly positive multiplier effect as regards public resource allocation. This is an effect that cannot occur when each industry pursues its own agenda. Strategic development seeks to advance development by concentrating on strategically upgrading the ‘bricks and mortar’ common to several traditional and related industries, leading to the development of a shared platform from which a wide range of firms, working either individually or in clusters, may implement their own, more sophisticated strategies. Groups of firms from one or more industries often are prepared to make investments in such enabling infrastructure (or “externalities,” as termed by economists) because, first, they recognize how the investment will help them to implement their own higher-value strategies, and secondly, it is understood that the investment will not favor one firm or group of them at the expense of another. Investments of this nature add positively to local rivalry and help to build the middle ground in the development gap.

Whereas value is a feedstock of wealth, information is *the* feedstock of benchmarking. The benchmarking undertaken in strategic development initiatives requires a range of micro-oriented, commercial information that is not usually dealt with in development exercises. The need for information is multiplied by the fact that strategic development is a scale-neutral exercise; it may be pursued at any relevant, operative level (nation, region, or municipality; industry, segment or cluster; small or large firms.) Market information capabilities need to be strengthened to undertake strategic development exercises. Building information capabilities is often one of the first shared, public-private investment opportunities that presents itself in the context of strategic development initiatives.

Strategy is about differentiation, and differentiation is about choice. Benchmarking helps to establish a range of options for differentiation, and in so doing, to indicate any associated investments and policies that will facilitate the repositioning exercise.

The Development Diamond ©

One of the key goals of strategic development is to help countries (or regions, municipalities, clusters, or other) reposition their economies relative to global productivity standards. Porter’s “national diamond of competitiveness” is most useful to this exercise when it is itself repositioned so that the diamond sits on the factor or supply side. With this facet as its base, then the top of the diamond represents global demand, and the horizontal axes are, on the left, firm strategy, industry structure and rivalry, and on the right, related and supporting industry. In this new position, Porter’s diamond thus becomes the *development diamond*.

In its new position, the bottom of the diamond is where the low-cost, low-value traps sit. The bottom half of the *development diamond* is natural-resources heavy, static, and its chief inputs and outputs (raw or semi-processed materials) are labor denominated. Growth is slow and investment opportunities are constrained by a lack of cash flow. Upgrading in the bottom half of the diamond, when it occurs, often proves to be relatively unproductive because it tends to be driven by social policy concerns rather than by *strategy*, and it usually is insufficiently funded by the state and does not involve co-funding from the private sector. Thus, the gap widens, or at least remains a fixed and permanent feature of underdevelopment.

The top half of the *development diamond* is dynamic; greater availability of and access to capital and technology (made possible, *inter alia,* by *strategy)* enable the application of local knowledge and this specialization, in particular, allows producers and exporters to get closer to more demanding customers. Knowledgeable producers and knowledgeable consumers are cause and effect of value-creating partnerships in the top half of the diamond.

The bottom half of the *development diamond* may be thought of as the "old economy," and the top half as the "new economy." As discussed below, strategic development seeks to stimulate growth by enabling traditional, "old economy" industry to merge with and gain support from the "new economy."

Competitiveness Platforms © and Pilot Projects in Strategic Development

On the *development diamond, competitiveness platforms* are located above the horizontal axis, in the top half of the diamond, closer to the demand side of the market. They represent, usually in the form of pilot projects, a cluster's attempt at repositioning for higher growth and higher-value inputs and outputs. Benchmarking provides the raw material for *competitiveness platforms.*

Competitiveness platforms represent the physical manifestation of the teamwork involved in strategic development exercises. Having established the requirements of being globally competitive in terms of *strategy* and *policy,* a cluster's platform will serve as an application base for strategic development. These platforms are both target and by-product of any upgrading activities a cluster may agree to invest in upon conclusion and review of its benchmarking exercise.

Being located toward the top of the repositioned diamond, *competitiveness platforms* will be measurably different from non-strategic activities occurring in the same sector. A platform's inputs and outputs will be more capital and technology intensive, in line with those of "global industry." And as they are positioned to deliver higher-value products and services (including contract research) to "global" alliance partners or other higher-value clients in the global economy, *competitiveness platforms* are poised to attract investment capital and other strategic inputs from "global" companies. As pilot projects, *competitiveness platforms* will not challenge existing quota limitations or other trade restrictions. The platforms may serve as a base for rolling-out strategic development initiatives into the larger economy.

Examples of Competitiveness Platforms

A ready example of a *competitiveness platform* comes from the jewelry sector. Design creates value in jewelry, and it is a value that is missing in the jewelry sector of many developing countries. A design center may represent one component of a *competitiveness platform,* yet by itself such a center may not constitute a competitiveness platform. Many a design center has died for failure to create the other values that must be in place to support "design." Competitiveness platforms represent the opportunity to exploit any "Unique Selling Propositions" (or USPs) present in an industry. By themselves, USPs are squandered assets unless they are used as a base upon which industry adds value in the "home" market. Adding value and building a competitiveness platform in the jewelry sector may involve assuring that intellectual property rights are in place and enforced, and that the provision of a range of other high-end trade services are in place to support a more sophisticated trade – better cutting of stones, more use of newer technologies to ensure better grading and certification, and other inputs usually associated with name-brand jewelry.

Indeed, in the jewelry industry, as in other brand-sensitive industries, strategic development seeks to enable a cluster to "bring the brand home," that is, to add value that presently may not be obtainable in the local market due to an absence of strong linkage between *strategy* and *policy*. "Bringing the brand home" to traditional industries in developing countries means that any business operating in "our industry" must have access to the same range and quality of services as those available to the "global best" in their home market.

Another example of a *competitiveness platform* comes from a traditional plantation crop. A platform in this sector could be based on upgrading standards for blending, grading, and technically specifying raw and semi-processed product. Where official pricing policy may not adequately reward quality-conscious producers, the installation of relatively inexpensive color separation technologies on the factory floor of more sophisticated processors may enable them to reward higher quality producers with better prices, without violating or threatening the official price policy. Such upgrading may qualify even the raw product for sales into entirely new markets, where consumers may demand technically specified products rather than ones that pose a risk because of an industry's reliance on manual grading practices, for example, which create uncertainty about product purity, integrity or its uniformity. The addition of other upgraded trade services, such as bar coding, advanced warehouse and freight forwarding technologies and other trade services may also be integrated on a *competitiveness platform*. Such upgrades occur as a result of paying attention to *strategy,* and enabling it with *policy; s*hort of strong linkages between them, traditional industry is often constrained to justify the expense of upgrading.

There is a common strategic thread running through these examples, and indeed, throughout the strategic development initiative at large – the importance of upgrading and specialization of traditional industry, and on enabling cross-cluster linkages to leverage underlying investments into true strategic advantage. Several observations on this theme are discussed below.

It's About Differentiation and Creating Value for all Stakeholders

As noted above, strategy is about differentiation. Again to hearken back to Smith, when he introduced his thinking on economic development and the variability of the wealth of nations, it is perhaps significant to note that in one short reference he used the word 'different' two times: "Of the *Different* Progress of Opulence in *Different* Countries (emphasis added). 3/ While many people are under the mistaken impression that competitiveness equates with "being low cost," true competitiveness is driven much less by cost considerations than by innovation and specialization that allows for premium pricing. Creating value for all stakeholders -- the key to strategic development – requires a focus on differentiation.

The global economy tends to shop for low cost, raw or intermediate products in developing countries. This has had the effect of setting in motion a situation whereby developing countries end-up essentially enabling the competitive advantage of industry in other countries. This often comes at the expense of investing to upgrade and specialize traditional industries in developing countries.

Like competitiveness, strategic development offers the possibility of changing the basis of competition. Globalization, according to some people, threatens monoculturalism, yet at the same time it is providing very strong stimulus for countries to differentiate. Consider Thailand, which, having "lost confidence in the global economy," was described in a recent newspaper article as "turning inward," favoring 'nativism' over an undifferentiated approach to the global economy. 4/ Similarly, small towns in the Australian bush seek to "reinvent" themselves. 5/ These and myriad other examples point to the appeal of a focus on strategic development in developing countries and elsewhere.

A Strategy for Strategic Development

International trade theory always has been predicated on specialization. Technology and technological upgrading are agents of specialization. Competitiveness platforms are essentially upgraded technology platforms. Built either as pilot projects, or rolled-out on a larger scale, these platforms may represent springboards to specialization. Their ability to fulfill this function is enhanced to the extent that members of the "local" technology community are involved in the strategic development process.

The information technology (IT) sector may be regarded as a subset of the "technology" community. A newer, nontraditional industry in many developing countries, this sector tends to attract individuals who have higher levels of education, and more global awareness than might be found in other sectors.

Despite these attributes, in many developing countries the IT sector is falling prey to the familiar pressures to be "low cost" suppliers of undifferentiated product to the global economy. The trap is set, but there is an exit strategy more readily at hand than for other more traditional industries in developing countries

A strategy to consider in the context of strategic development involves positioning the IT industry as an enabler of traditional industry, in recognition of technology's transformative potential as an upgrade link between the "old" and "new" economies. Pairing a "technology" cluster with traditional clusters, or including "IT" as unit of each traditional cluster, and then undertaking technology benchmarking (akin to *strategy* and *policy* benchmarking) can facilitate broadly-based but tightly focused repositioning of traditional industries in developing countries. The intended effect is like that of a layer cake, where the deeper one bites, the sweeter it gets; that is, strategically focused, overlapping investments in overlapping infrastructure, technology, and R&D --in the bricks and mortar of development --creates a flywheel effect for profitability and hence helps to bury the development gap.

Universities can be integral to the strategy. They can undertake surveys of "global industry" to determine where value is being added by technology 'at the top of the diamond.' Then, working in the cluster with local design firms and traditional industry producers and others, they can scope-out how existing technologies may be reengineered in the local market and adapted to support the upgrading and specialization of traditional products, for example. Bids to build the required applications may be tendered in the "local" market, to induce IT firms and other technology-related firms in the home market to enable traditional industry with applications and "solutions" that will help to establish new price points and new, higher-end products and services.

The intended effect of this strategy is to stimulate production of goods and services that are global in concept, and local in application, and so begin a new strategic dialogue with the global economy.

Implications

Strategic development may represent a new chapter in the development dialogue. It favors a role for clusters, in a move away from other, less strategically oriented approaches to development.

There is ample opportunity for development banks to support the process of strategic development by "lending better," for example. As upgrading is key to the exercise of strategic development, development banks might be encouraged to lend (and to condition on-lending) only when any equipment to be purchased is state-of-the-art. Lending or borrowing for older generation technology, for example, only adds teeth to the trap.

There is a similarly large opportunity for donor assistance in the area of gathering information on the poorly understood microeconomics of development, and the equally poorly understood linkages between the micro- and macroeconomics of development.

Strategic Development: Rules of the Road

If there were rules on the highway of strategic development, or on the level playing field that it represents, there would be three: strategy rules; clusters lead; and policy enables. First things first: Let's start a new development dialogue, on *strategy*.

Footnotes

1. Adam Smith, *Wealth of Nations*, Book III, Chapter 1, "Of the Natural Progress of Opulence;" and Book IV, "Of Systems of Political Economy," Introduction.

2. Michael Porter, *The Competitive Advantage of Nations*. New York: Free Press. 1990.

3. Smith, *ibid.*

4. "Thailand's Nativism," *The International Herald Tribune, 25* June 2001.

5. F*inancial Times,* 27 August 2001.